

## Bank loan primer: structure, risks, and market evaluation

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Bank loans have become a crucial part of many institutional investors' portfolios in recent decades, whether it be on a standalone basis or part of a broader credit allocation. This paper begins by providing background information on bank loans and highlighting the key differences between bank loans and another commonly used credit strategy, high yield bonds. It then discusses three major risks commonly associated with credit strategies – interest rate risk, credit risk, and liquidity risk – with a particular focus on how these risks manifest in high yield bonds compared to bank loans. Next, it examines structural changes that have taken place in the bank loan market, including the deterioration in credit quality and the rise of private credit as an alternative. The final sections evaluate the role of bank loans in an investor's portfolio and explore issues one may face after deciding to invest in this asset class.

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### Key takeaways

- Bank loans are senior, secured, floating-rate instruments issued to below investment grade borrowers. They offer protection through collateral and higher recovery rates, making them a valuable alternative to high yield bonds.
- Bank loans have been highly correlated with other riskier assets, particularly assets that have similar levels of credit risk such as high yield bonds. Bank loans tend to outperform high yield bonds in downturns due to seniority but may underperform in expansions due to call risk.
- Risks include credit/default risk, interest rate, and liquidity risk with default risk being the most impactful. Due to their floating rate structure, bank loans are expected to outperform in rising rate environments, although liquidity can rapidly decline in periods of market stress.
- The market has shifted since the Global Financial Crisis (GFC), with a rise of covenant lite structure, greater dominance by collateralized loan obligation (CLO)<sup>1</sup> buyers, and growing competition to the broadly syndicated loan market from private credit.

<sup>1</sup> A collateralized loan obligation is a financial instrument that pools together a collection of loans and securitizes them into tranches with varying levels of risk and return.

## What are bank loans?

A syndicated loan is a loan provided by a group of lenders — called a syndicate — who work together to fund a single borrower. Bank loans represent syndicated corporate loans that businesses use to finance various needs, including working capital requirements or acquisitions. Key differences with other types of debt financing are that bank loans tend to be floating rate and senior in the capital structure.

There are three subsectors to the broadly syndicated loan market, each typically catering to different borrower profiles and financing needs:

- Investment Grade Loans: Typically extended to highly rated borrowers<sup>2</sup> to backstop an investment grade firm's commercial paper issuance. They represent around 6% of the investable market.<sup>3</sup>
- Middle Market Loans: Smaller loans made to borrowers with earnings before interest, taxes, depreciation, and amortization (EBITDA) less than \$50 million.<sup>4</sup>
- Leveraged Loans: Extended to below investment grade (typically highly leveraged) firms and representing nearly the entire investable market (94%).<sup>5</sup>

This paper focuses on leveraged loans (and interchangeably refers to them as bank loans) as they represent nearly the entire investable market.<sup>6</sup> Two indices - the Morningstar LSTA US Leveraged Loan Index and the S&P/UBS US Leveraged Loan Index - are commonly used as proxies for this market. However, the Morningstar LSTA Index is primarily used in this paper due to its widespread adoption in the industry and greater availability of data and supporting resources.<sup>7</sup>

Leveraged loans have become preferred financing options for firms, particularly as corporate bonds incur significantly higher costs. As of 2025, the par amount of loans outstanding in the US leveraged loan market exceeded \$1.6 trillion,<sup>8</sup> and broadly syndicated loans accounted for approximately half of the debt financing for buyouts.<sup>9</sup>

The bank loan asset class covers a wide range of loans, from just below investment grade issues to much riskier securities that have lost their credit ratings entirely. As Figure 1 illustrates, most loans in the leveraged loan market are rated either BB or B. Over the past decade, the bank loan market has experienced a decline in average credit quality, with BB-rated loans decreasing from 45% in June 2015 to less than 30% in June 2025. This decrease has been accompanied by an increase in B-rated bonds.

<sup>2</sup> In the investable market, these are considered BBB- and above.

<sup>3</sup> Source: Morningstar LSTA Leveraged Loan Index, data as of June 30, 2025.

<sup>4</sup> Source: LCD Pitchbook Leveraged Loan Primer, S&P Global. Data as of June 30, 2025.

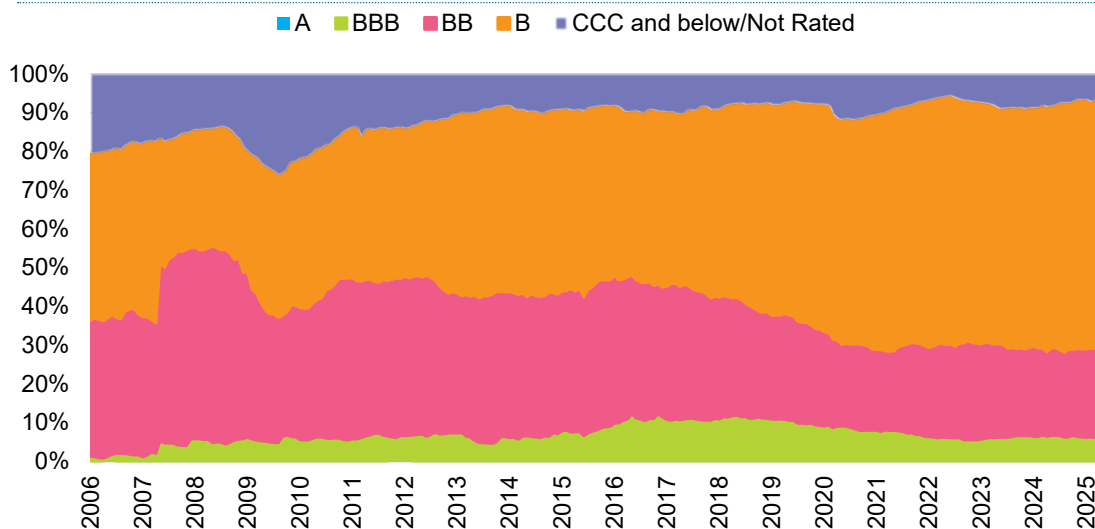
<sup>5</sup> Source: Morningstar LSTA Leveraged Loan Index, data as of June 30, 2025. Leveraged or speculative grade loans are BB+ and below.

<sup>6</sup> The Loan Syndications and Trading Association (LSTA) was established in 1995 to develop and enforce market standards for syndicated loans.

<sup>7</sup> The two indexes exhibited a near perfect correlation of 0.99 from January 1997 to June 2025. Source: InvestmentMetrics, monthly returns. For long-term historical analysis, the S&P UBS index may be used as it has an earlier inception date (1992 rather than 1997). Note that Morningstar acquired the LSTA Leveraged Loan Index in 2022, and it is now named the Morningstar LSTA Leveraged Loan Index. In 2024 S&P acquired the UBS and Credit Suisse Leveraged Loan Index and it is now named the S&P UBS Leveraged Loan Index.

<sup>8</sup> Source: JP Morgan, as of June 30, 2025.

<sup>9</sup> Source: Pitchbook LCD, "US Private Credit Monitor", as of June 2025. 49% of the \$78 billion of year-to-date buyout volume was from syndicated loans, while 51% was from direct lending (i.e., private credit).



**FIGURE 1**  
**Credit Quality of the US Leveraged Loan Market**

Source: JP Morgan. For the period February 2006 to June 2025.

## Comparing bank loans with high yield bonds

Bank loans and high yield bonds both represent debt issued primarily by below investment grade borrowers. However, before comparing returns, investors should consider several important structural differences between these asset classes (see Figure 2).

	Bank Loans	High Yield Bonds
Coupon	Floating Rate	Fixed Rate
Ranking	Senior	Senior Subordinated
Credit Security	Secured	Unsecured
Covenants	Maintenance and Incurrence <sup>10</sup>	Incurrence
Callability	Callable	Not Always Callable
Historical Spread	4.5% over LIBOR/SOFR <sup>11</sup>	5.0% over Treasuries <sup>12</sup>

**FIGURE 2**  
**General Characteristics of Speculative Grade Debt**

Source: Meketa Investment Group, 2025.

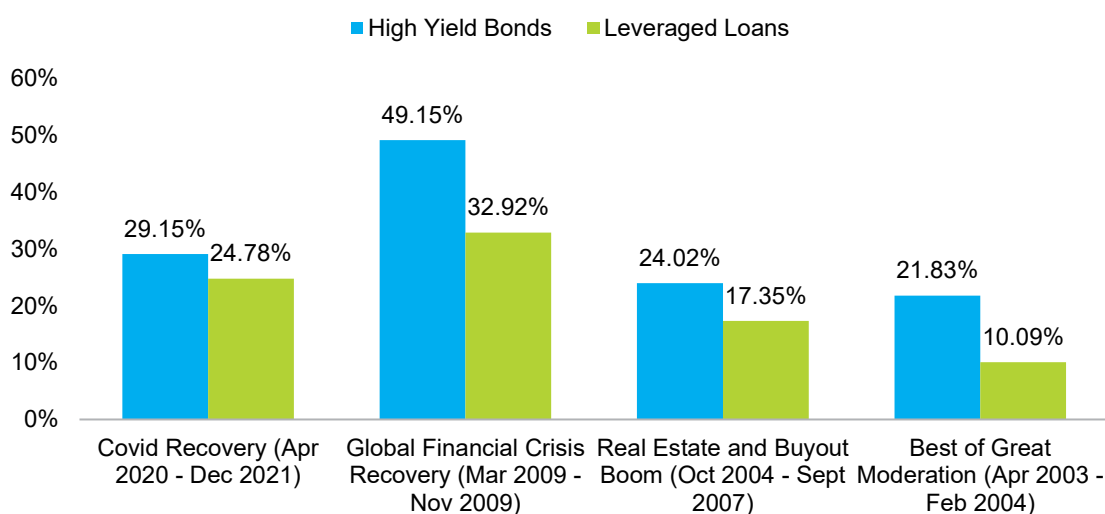
<sup>10</sup> Maintenance covenants require that the issuer maintain financial metrics (such as total debt to EBITDA) on a periodic basis. Incurrence covenants require that the issuer meet certain financial ratio tests along with making timely debt and principal payments. Not all bank loans have covenants. Covenant-lite loans, or loans without maintenance covenants, currently comprise about 92% of the loans in the bank loan market.

<sup>11</sup> Source: Pitchbook LCD. For the period January 1997 to June 2025 the average discounted spread to maturity was 449 basis points. As of June 2025, this value was 399 basis points, below its long-term average.

<sup>12</sup> Source: Calculated based on the average option-adjusted spread (OAS) from Barclays Live from January 1997 to June 2025. As of June 2025, this value was 290 basis points, well below its long-term average.

Bank loans are often viewed as less risky than high yield bonds due to several structural factors: 1) they are secured by company assets, 2) they may include additional maintenance covenants, and 3) they hold a more senior position in the borrower's capital structure. On the other hand, bank loans are callable, meaning that issuers can prepay their debt when credit spreads tighten. This creates a call risk for investors, who may be forced to reinvest their capital at lower interest rates in such scenarios. This structural divergence leads to varying sensitivity in different market environments.

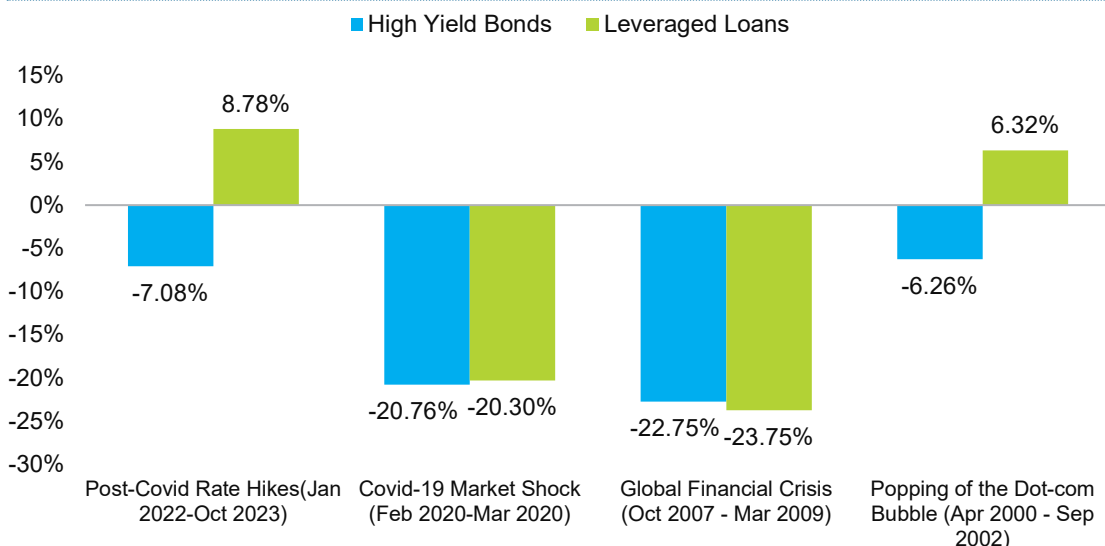
Historically, bank loans have underperformed high yield bonds during times of economic expansion, when the narrowing of spreads and the callability of loans becomes more impactful - for instance, during the post-GFC recovery in 2009 and COVID recovery in 2020-2021.



**FIGURE 3**  
**Positive Historical Scenario: Cumulative Returns of Bank Loans vs. High Yield Bonds**

Source: Meketa Asset Allocation Tool, as of June 30, 2025.

However, during economic downturns, seniority and collateral backing often provide greater protection. This trend was evident during the early 2000s popping of the Dot-com Bubble and the recent 2022-2023 period of rising interest rates.



**FIGURE 4**  
**Negative Historical Scenario: Cumulative Returns of Bank Loans vs. High Yield Bonds**

Source: Meketa Asset Allocation Tool, as of June 30, 2025.

While these historical patterns generally hold, there have been some exceptions. For example, in 2008, during the Global Financial Crisis (“GFC”), bank loans failed to provide downside protection and instead underperformed high yield bonds. This underperformance was largely a result of forced selling by Collateralized Loan Obligations (“CLOs”) in the face of extreme market stress.

### Nature of risks in bank loans

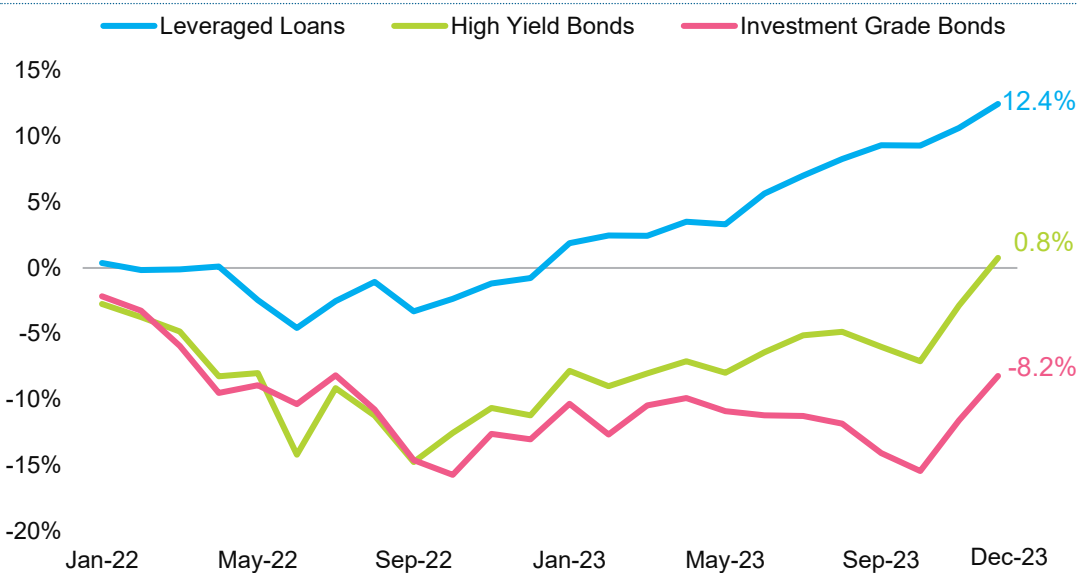
Unlike high yield bonds, bank loans are floating rate instruments, with the coupon based on a spread over a commonly accepted benchmark. Following the phase-out of the London Inter-Bank Offered Rate (“LIBOR”) in 2021, the benchmark has transitioned to the Secured Overnight Financing Rate (“SOFR”), a daily rate based on actual repo market transaction data and published by the Federal Reserve Bank of New York.<sup>13</sup>

<sup>13</sup> Source: Federal Reserve Bank of New York.

Due to their floating rate structure, bank loans are less directly exposed to interest rate risk compared to high yield bonds. Instead, they can potentially benefit from rising short-term interest rates (see Figure 5). When short-term interest rates increase, the interest rates on loans are adjusted upward, enabling investors to earn higher income, provided the creditworthiness of the loans remains consistent.

However, many bank loans include contractual floors based on the floating reference rate. These provisions prevent the coupon from increasing until the benchmark rate rises above the floor, which can delay the benefit of short-term interest rate increases. In the years following the GFC, the proportion of bank loans with a positive floor rose from under 5% in 2008 to over 90% in 2016.<sup>14</sup> This number has since declined and sits just below 50% as of June 2025. As a result, during much of the last hiking cycle, a large share of loans did not immediately capture the income boost from higher policy rates.

<sup>14</sup> Source: LCD Pitchbook, as of June 30, 2025. The proportion of bank loans with a positive floor was 4.1% in January 2008, 93.1% in March 2016, and 48.8% as of June 2025.

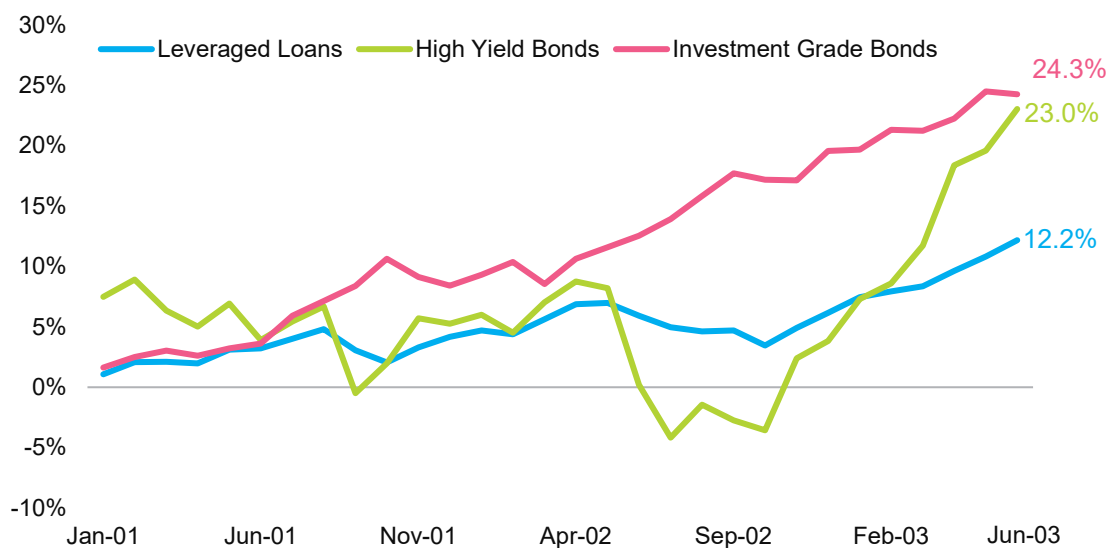


**FIGURE 5**  
Cumulative Performance during Recent Rate Hike Period 2022 - 2023 (%)

Source: InvestmentMetrics, monthly returns. Indices: Morningstar LSTA Leveraged Loan Index, Bloomberg US Corporate High Yield Index, Bloomberg US Aggregate Index. For the period January 2022 to December 2023.

Figure 5 highlights the period from January 2022 to December 2023, during which the Fed aggressively raised rates to combat high inflation. Across this period, bank loans significantly outperformed high yield bonds, delivering 11.7% cumulative excess returns.

However, it is important to understand that this rate sensitivity works in both directions, and decreasing rates can potentially reduce the returns from bank loans (see below).



**FIGURE 6**  
**Cumulative Performance during Rate Cut Period 2001 – 2003**

Source: InvestmentMetrics, monthly returns. Indices: Morningstar LSTA Leveraged Loan Index, Bloomberg US Corporate High Yield Index, Bloomberg US Aggregate Index. For the period January 2001 to June 2003.

Figure 6 illustrates the period from January 2001 to June 2003, during which the Fed cut interest rates 13 times to bring rates to their lowest value since the 1950s. Despite this, bank loans delivered a modest return of 12.2%, underperforming high yield bonds but with visibly less volatility.

### Credit/Default Risks

Credit risk refers to the ability and willingness of a loan issuer to make all their payments on a timely basis. In default, the loan issuer fails to make payments of interest or principal to the loan holder when they are due. The loan holder may eventually receive all, some, or none of the expected cash flows (including the principal repayment). The amount they receive is known as the recovery rate.

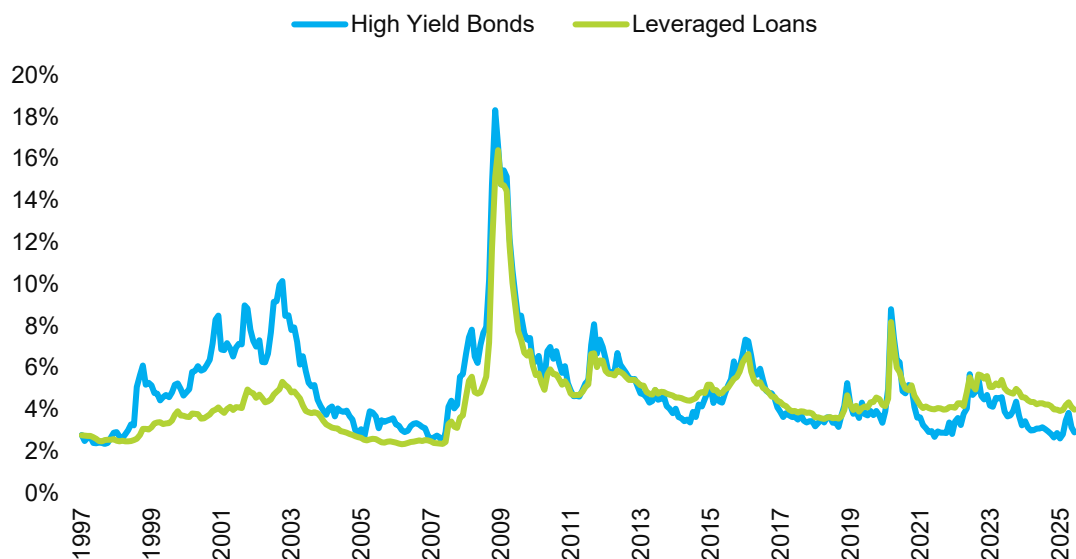
While default rates for bank loans and high yield bonds have both been comparably low over the last 25 years (2.8% vs. 2.9%), the recovery rates for bank loans are significantly higher.<sup>15</sup> This is a result of their secured and senior status. In default, first-lien bank loans on average recovered about 62 cents on the dollar, while high yield bonds recovered about 40 cents.<sup>16</sup>

<sup>15</sup> Source: JP Morgan. As of June 30, 2025.

<sup>16</sup> Source: JP Morgan. As of June 30, 2025.

Investors are compensated for these credit risks through spreads, or the excess yield over a risk-free benchmark. Historically, bank loans have yielded a spread of approximately 4.5% over LIBOR or SOFR, while high yield bonds have had an

average long-term spread of 5.0% over comparable Treasuries. These spreads fluctuate based on macroeconomic conditions, investor sentiment, and underlying credit fundamentals. During periods of macroeconomic stress, bank loan spreads tend to widen, reflecting the increased demand for risk compensation. As Figure 7 illustrates, the spreads for bank loans and high yield bonds have tracked very closely to each other historically.



**FIGURE 7**  
**High Yield and Leveraged Loans Credit Spreads 1997 – 2025 (%)**

Source: Pitchbook LCD and Bloomberg, as of June 30, 2025. High yield spread calculated using option adjusted spread (OAS) from Bloomberg and leveraged loans using discounted spread to maturity from Pitchbook LCD.

## Liquidity Risk

Due to their syndicated structure, leveraged loans are not traded in the same way as publicly traded securities and thus do not offer full transparency and liquidity. Unlike high yield bonds, which have a settlement time of T+1, bank loans take much longer to settle - anywhere from a week to several weeks.<sup>17</sup> During periods of significant market stress, when liquidity tends to be in greatest demand, it often becomes harder to buy and sell loans. This may be expressed through significant widening of the bid-ask spread (which makes it more expensive to transact), or in extreme cases, the inability to find a buyer for security. A recent example is the pandemic induced volatility during 2022-2023, during which spreads widened.<sup>18</sup>

## Historical performance of bank loans

The early experience of bank loans illustrates the risks in drawing long-term conclusions from short-term data series. Throughout the 1990s and most of the 2000s, bank loans delivered strong returns with minimal volatility, producing annualized results comparable to investment grade bonds but with lower risk.<sup>19</sup> This perception changed in 2008, when bank loans revealed themselves to be much riskier than investment grade bonds, with losses closer to those of assets such as high yield bonds and equities. Over the full period from January 1992 through June 2025, bank loans outperformed investment grade bonds with a 5.6% return compared to 4.6%.<sup>20</sup> However, this sustained outperformance since the GFC has come with higher volatility – an average of 5.2% for bank loans versus 4.1% for investment grade bonds over the same period.

<sup>17</sup> Source: Irwin, James, and Sarah Wagner. "Loan Settlement: 2023 Year in Review." S&P Global Market Intelligence, February 8, 2024.

<sup>18</sup> Source: Fenske, Chris. "Leveraged Loans: 2023 Loan Liquidity Year in Review." S&P Global Market Intelligence, February 6, 2024.

<sup>19</sup> From 1992-2007, bank loans annualized standard deviation was 2.3% versus 3.7% for investment grade bonds.

<sup>20</sup> Source: InvestmentMetrics. Indexes: S&P UBS Leveraged Loan Index, Bloomberg US Corporate High Yield Index. For the period January 1992 to June 2025.

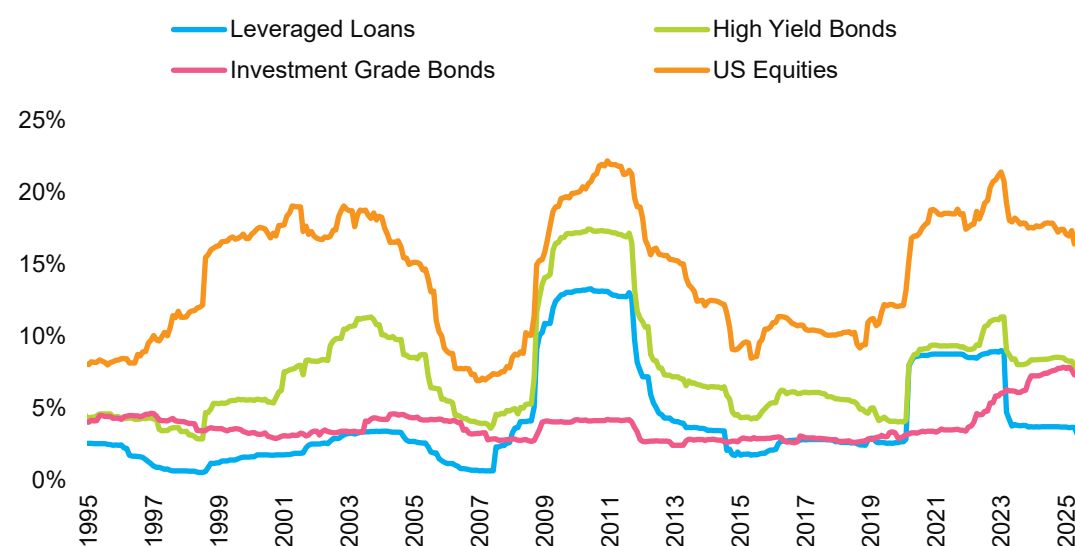


	1 Year	3 Years	5 years	10 Years	20 Years	Since 1992
Leveraged Loans	7.3%	9.5%	7.3%	5.1%	4.9%	5.6%
High Yield Bonds	10.3%	9.9%	6.0%	5.4%	6.6%	7.3%
Investment Grade Bonds	6.1%	2.6%	-0.7%	1.8%	3.1%	4.6%
US Equities	15.2%	19.7%	16.6%	13.7%	10.7%	10.5%

**FIGURE 8**  
**Annualized Returns**

Source: InvestmentMetrics, monthly returns. Indices: S&P UBS Leveraged Loan Index, Bloomberg US Corporate High Yield Index, Bloomberg US Aggregate Index, S&P 500 Index. For the period January 1992 to June 2025.

On average, bank loans have been less volatile than equities and high yield, but more volatile than investment grade bonds. Note that they have exhibited lower volatility than investment grade bonds for long stretches, but that this is demonstrably not the case during and around crisis events such as the GFC and the COVID pandemic.

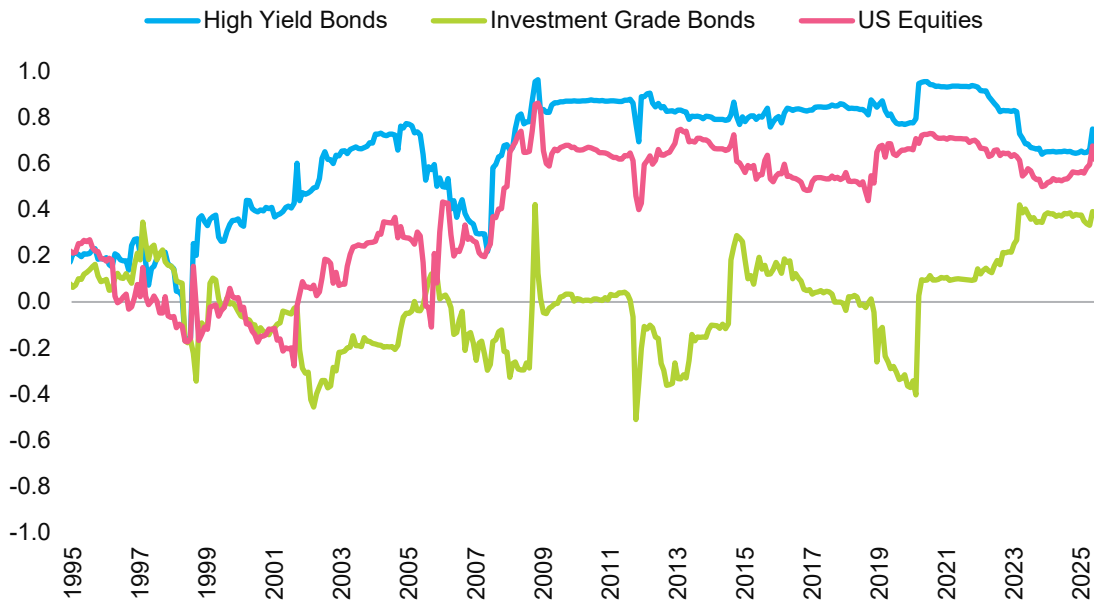


**FIGURE 9**  
**Rolling 3-Year Volatility**

Source: InvestmentMetrics, monthly returns. Indices: S&P UBS Leveraged Loan Index, Bloomberg US Corporate High Yield Index, Bloomberg US Aggregate Index, S&P 500 Index. For the period January 1995 to June 2025.

During periods of elevated volatility, such as in 2008 and the rate-rise cycle that started in 2022, correlations between bank loans and riskier assets like equities and high yield bonds tended to increase (see Figure 10). Prior to 2008, bank loans exhibited a modest positive average correlation with high yield bonds (0.52) and domestic large cap equities (0.18), and a slightly negative correlation with investment grade bonds (-0.07). Post-GFC, the average correlations with high yield bonds and US equities have risen to 0.83 and 0.59, respectively, while the correlation with investment grade bonds shifted to being slightly positive (0.07).





**FIGURE 10**  
**Rolling 3-Year Correlation**  
**with Bank Loans**

Source: InvestmentMetrics, monthly returns. Indices: S&P UBS Leveraged Loan Index, Bloomberg US Corporate High Yield Index, Bloomberg US Aggregate Index, S&P 500 Index. For the period January 1995 to June 2025.

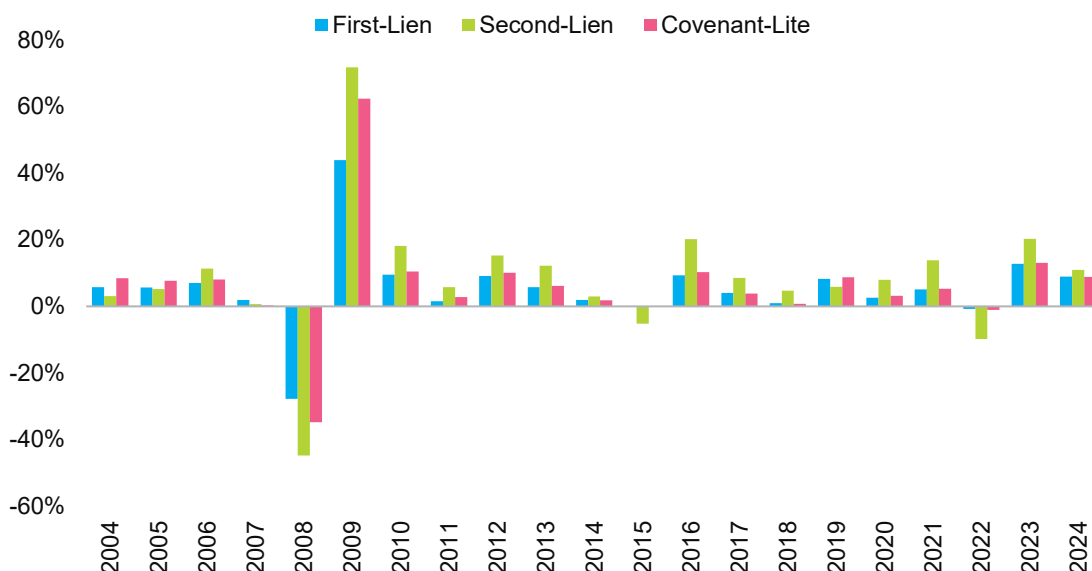
### Performance Dispersion within Bank Loans

Performance within the bank loan market has varied greatly across loan types. Second-lien bank loans, which are junior to first-lien loans and represent under 2% of loans outstanding, have outperformed first-lien loans on an annualized basis by 183 basis points since 2004, before which second-lien loans were essentially non-existent. Despite a rough 2008, second-lien loans rebounded in 2009 returning nearly 71.8%, compared to 43.9% for first-lien loans.<sup>21</sup> Additionally, covenant-lite loans,<sup>22</sup> which currently represent 92% of loans outstanding,<sup>23</sup> have outperformed all first-lien loans on an annualized basis by 32 basis points since 2006, before which covenant-lite loans were essentially non-existent (see Figure 11).

<sup>21</sup> Source: S&P Global. Index: S&P UBS Leveraged Loan. In 2008, second-lien loans returned -44.7%, versus -27.7% for first-lien loans.

<sup>22</sup> Covenant-lite loans are first-lien loans without a maintenance covenant. They also became a feature of the last credit cycle, with their increased issuance coinciding with narrower spreads and greater loan issuance for leveraged buyouts.

<sup>23</sup> Source: Morningstar LSTA Leveraged Loan Index. For the period February 2006 to June 2025.



**FIGURE 11**  
**Annual Returns to First-Lien, Second-Lien, and Covenant-Lite Bank Loans**

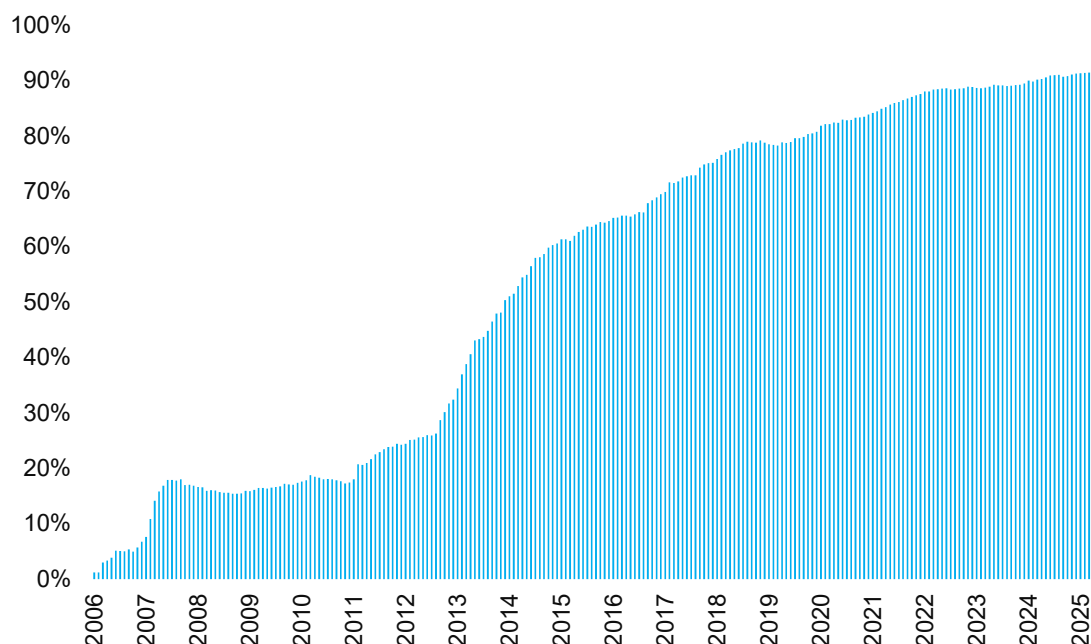
Source: S&P Global, for the period 2004 through 2024. Index: S&P UBS Leveraged Loan Index.

## Recent structural shifts in the leveraged loan market

Since the GFC, there have been several shifts in the loan market. While banks face stricter regulations, new financing alternatives in public and private credit markets have arisen that offer greater flexibility, easier access to capital and the potential for higher yields.

### Quality Deterioration

Post-GFC, the average quality of bank loans has deteriorated. While the asset class is still composed mainly (98%) of first-lien loans, credit quality has gradually become dominated by B-rated and lower issues (see Figure 12). Moreover, the amount of loans that are covenant lite has increased from less than 20% to more than 90% of issuance. Covenant-lite is defined as loans with fewer restrictions or covenants that protect lenders (i.e., the legal terms are more favorable for the borrowers). These loans are often used in the context of leveraged buyouts (“LBOs”).

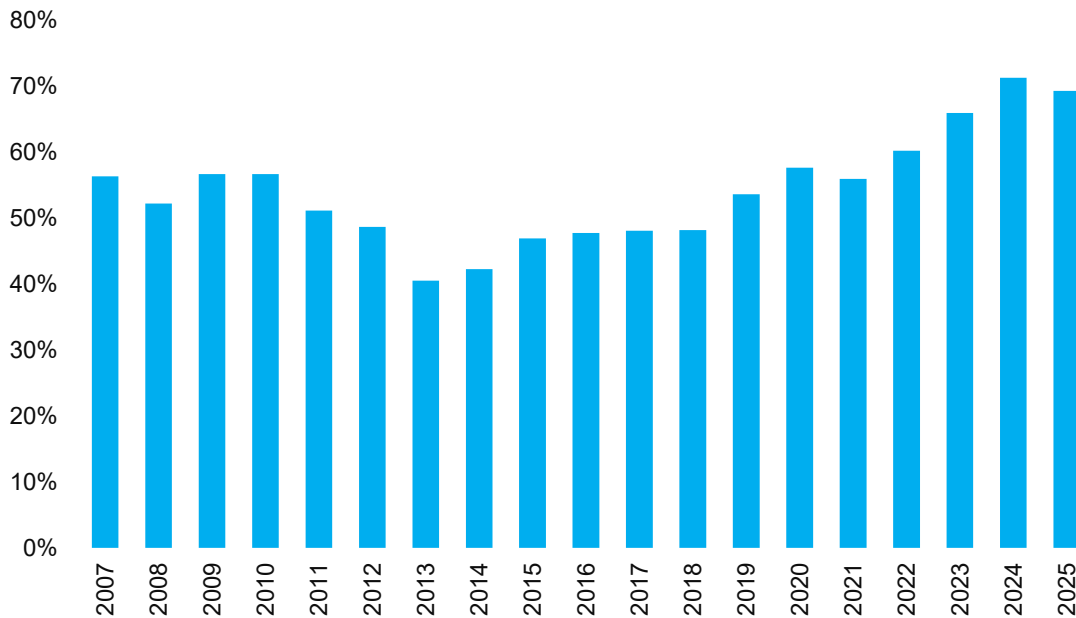


**FIGURE 12**  
**Monthly Percent of**  
**Covenant-lite out of Total**  
**Outstanding Bank Loans**

Source: Bain Capital for the Morningstar LSTA Leveraged Loan Index. Represents month-end data for the period February 2006 to June 2025.

A major cause of this deterioration has been a result of Collateralized Loan Obligations, the largest and most consistent buyers of syndicated loans. Although CLOs provide liquidity and enhance credit availability, their incentive structures often prioritize spread and yield over credit fundamentals. Following the GFC, the CLO market underwent structural reforms and regulatory changes aimed at protecting investors, improving transparency, and managing risk. However, due to limited returns because of the lower leverage, managers have increasingly accepted more aggressive deals. This has fueled persistent demand for riskier, lightly covenanted loans, particularly during the low-interest rate environment of the 2010s. As of June 2025, CLOs accounted for 69% of all leveraged loans outstanding, which is a higher share than seen even at the peak of the GFC.

<sup>24</sup> Source: JP Morgan, as of June 30, 2025.



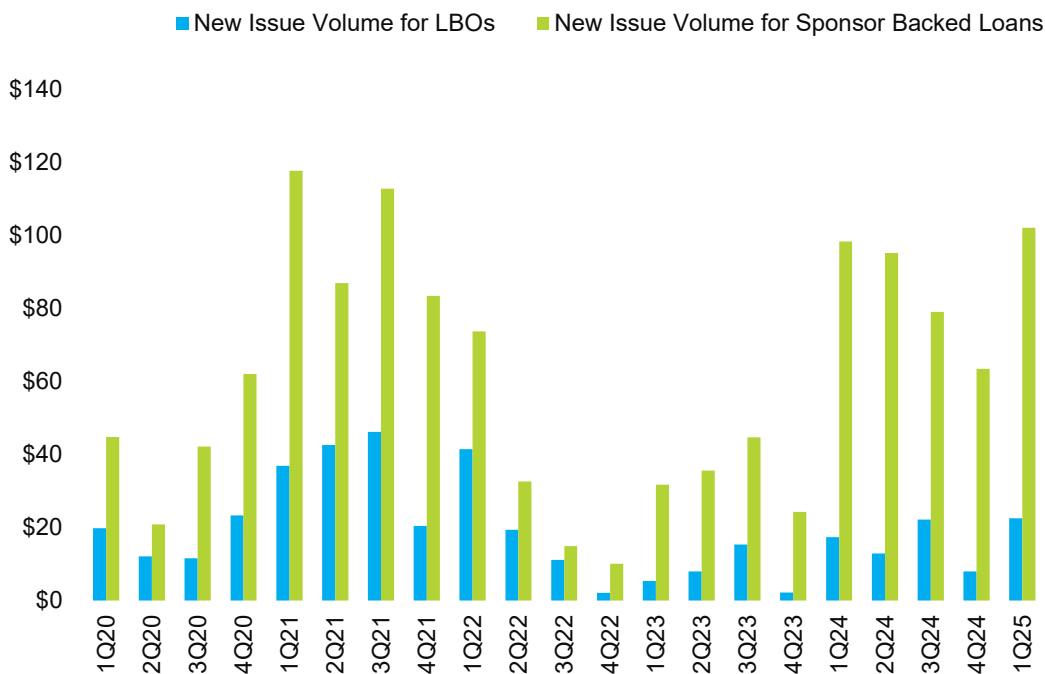
**FIGURE 13**  
Par Amount of CLOs  
as Percent of Total  
Outstanding Bank Loans  
(%)

Source: JP Morgan, as of June 30, 2025.

## Issuance

Issuance volumes in the LBO loan market closely follow macroeconomic cycles, shifting with interest rate policy, risk appetite and investor demand. After rebounding from the GFC in 2009, issuance steadily increased through the 2010s, driven by accommodative monetary policy. The Federal Reserve tightening cycle beginning in 2022 led to a sharp drop in issuance. However, the market rebounded in 2024, reaching a record of \$1.32 trillion in leveraged loan issuance.<sup>25</sup> Although it has moderated in 2025, bank loans have consistently held higher levels of issuance over the last decade.

<sup>25</sup> Source: JP Morgan, Pitchbook, as of June 30, 2025.



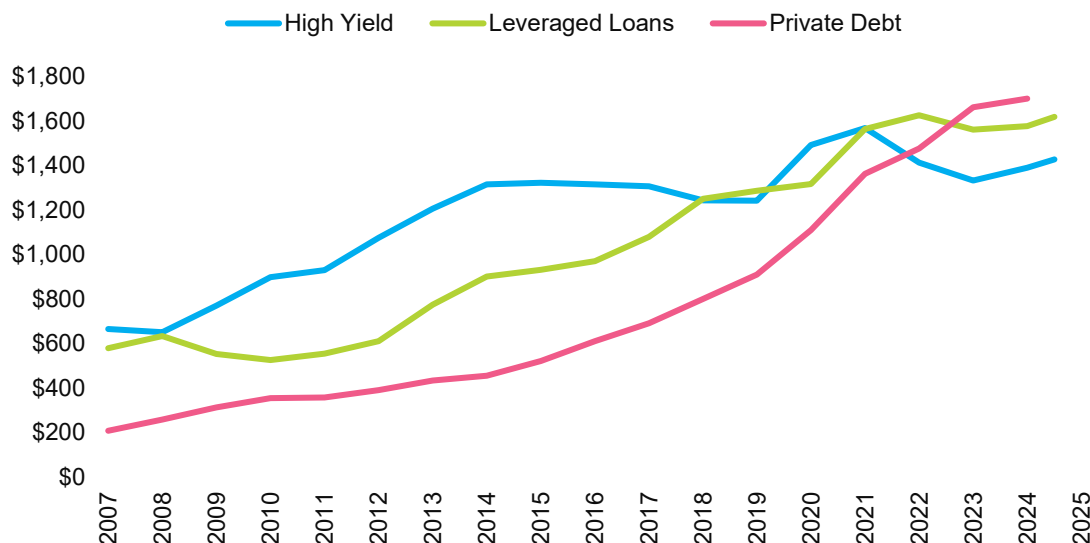
**FIGURE 14**  
Recent New Issue Volume  
for Broadly Syndicated  
Loan Market (\$B)

Source: Pitchbook LCD, as of June 30, 2025. Note that the graph shows new issue volume only for LBOs and sponsor-backed loans. It does not include non-sponsor-backed deals and thus should not add to the \$1.32T value in the previous paragraph.

## The Role of Private Credit

Private credit has fundamentally transformed the corporate financing landscape since the GFC, evolving from a niche segment into a critical component of global capital markets. Assets under management (AUM) in private credit has experienced exponential growth, increasing from \$333 billion in 2009 to over \$1.7 trillion by the end of 2024.<sup>26</sup> In fact, private credit surpassed leveraged loans in market size in 2023 (see Figure 15). This expansion reflects structural changes in borrower behavior and the growing investor demand for yield.

<sup>26</sup> Source: Preqin, as of December 2024.



**FIGURE 15**  
**Market Size (\$B)**

Source: JP Morgan and Barclays Live, as of June 30, 2025, and Preqin, as of December 2024 for private credit AUM. Indexes: Bloomberg Corporate High Yield, Morningstar LSTA Leveraged Loan Index. Note that for high yield and leveraged loans, market size was calculated using par amount of loans outstanding while private debt was calculated using assets under management (AUM).

Direct lending, the backbone of private credit, has emerged as an attractive alternative to syndicated loan issuance. In this market, institutional lenders provide loans directly to middle-market companies, by-passing the traditional bank syndication process. This approach is particularly compelling to sub-investment grade borrowers who value the speed, flexibility, and certainty that private credit lenders can offer.

## Role of bank loans in a portfolio

The primary risk inherent in bank loans is credit risk, and this risk is highly linked to broader economic growth. Hence, investors should be aware that bank loans will often move in similar directions as other assets in their portfolio that are exposed to economic growth, which includes public and private credit as well as public and private equity.

For investors looking for yield in their portfolio, bank loans may serve as part of this role. What most differentiates bank loans is their floating rate nature. Whereas most fixed income instruments face price declines during periods of rising rates, bank loans are poised to benefit when rates increase. As increasing interest rates often correlate with inflation, bank loans may offer investors a partial hedge against certain types of inflationary environments. Thus, an investor should carefully consider how an investment in bank loans fits within their credit portfolio.

## Implementation issues

The liquidity requirements of daily-priced vehicles and ETFs are misaligned with the multi-day bank loan settlement times. Many bank loan funds keep higher cash positions and/or invest in more liquid non-loan assets such as high yield bonds to enhance fund-level liquidity, though this will increase other risks to the fund such as tracking error and potentially credit and duration risk. Daily liquid funds may also tilt their holdings toward the largest issuers, given the relatively higher liquidity in those loans. Hence investors may find that commingled funds with monthly or quarterly liquidity are preferable. The largest investors may even consider separately managed accounts if they are able to achieve appropriate diversification and they have access to the necessary operational resources.

Many institutional investors have traditionally used active management almost exclusively to invest in bank loans. This is likely because of the challenges facing passive management in the leveraged loan market. As noted previously, the market is not very liquid, which makes it both difficult and expensive (in the form of transaction costs) to try to replicate an index.

Bank loan managers should have a deep, skilled operations group who can handle over-the-counter trading and unique settlement of bank loans, as trading is much more nuanced relative to securities such as bonds. Some managers also have legal staff with experience evaluating loan documentation and structuring, in addition to bankruptcy (i.e., workout) proceedings.

The average alpha (i.e., excess annualized return) for bank loans has been positive historically, before fees (see Figure 16). However, fee structures play a significant role in net returns. The median fee on a \$100 million investment is 50 basis points for bank loans, reducing the average net return to -38 basis points in the past 10 years.<sup>27</sup> The impact on net returns highlights the importance of fee considerations. Depending on the situation and size of the mandate, an investor may be able to negotiate a lower fee.

<sup>27</sup> Source: Meketa analysis of data from eVestment Alliance. Data as of December 31, 2024. It is important to note that the fees listed are the “rack rate” fees.

Asset Class	Since Inception Median Gross Excess Return (basis points)	Trailing 10-Year Median Gross Excess Return (basis points)
Investment Grade Bonds	39	44
High Yield Bonds	32	15
Bank Loans	39	12

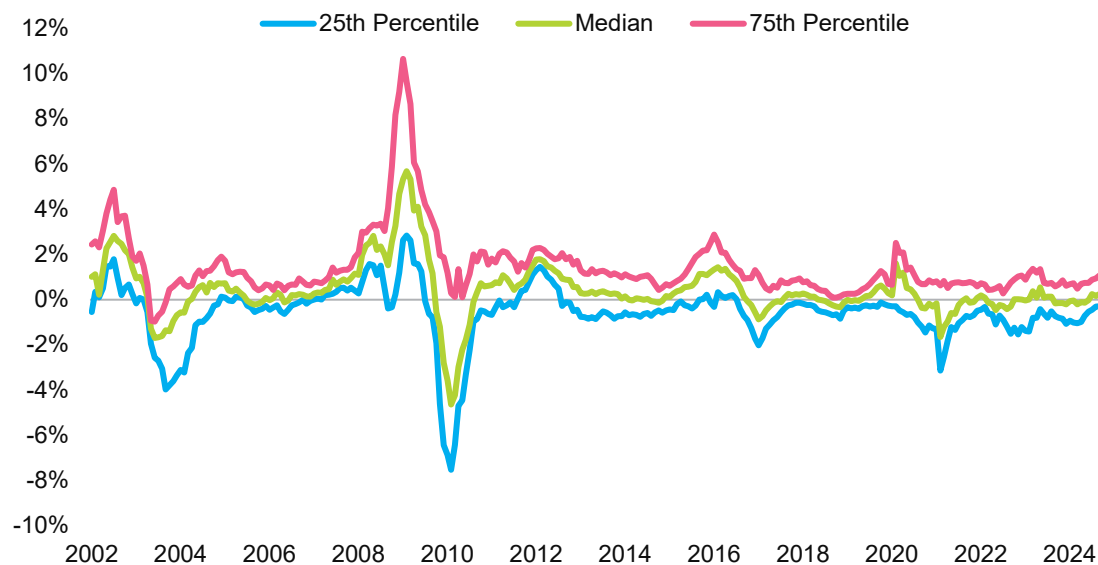
**FIGURE 16**  
Manager “Alpha” for Investment Grade Bonds, High Yield Bonds, and Bank Loans

Source: Meketa analysis of data from eVestment Alliance. Data as of December 31, 2024. Inception dates are as follows: Investment Grade Bonds: 1984; High Yield Bonds: 1988; Bank Loans: 2002.

Interquartile spreads (i.e., the gap between the 25th and 75th percentiles) can be interpreted as how much potential value lies in selecting superior active managers within an asset class. Over the past ten years, bank loans' interquartile spread of 1.6% was slightly lower than high yield bonds' 2.0% but higher than investment grade bonds' 0.9%.<sup>28</sup> This implies that bank loans provide slightly less opportunity to generate manager alpha compared to high yield bonds, but more opportunity compared to investment grade bonds. However, all three of these assets have relatively low interquartile spreads compared to asset classes such as equities.

<sup>28</sup> Source: Meketa analysis of data from eVestment Alliance. Data as of December 31, 2024.

Bank loans' interquartile spread has, on average, stayed low over time. However, the spread has widened during major market downturns such as the GFC (see Figure 17), implying that there are some periods where the quality of active management can have a greater impact.



**FIGURE 17**  
**Rolling 12-Month**  
**Performance of Bank**  
**Loan Managers 2002-**  
**2024**

Source: Meketa analysis of data from eVestment Alliance. Data as of December 31, 2024. Gross of fees. Due to the small number of funds at inception, some of the asset classes' early year relative returns may be skewed. For more information, see Meketa's Manager Alpha Whitepaper.

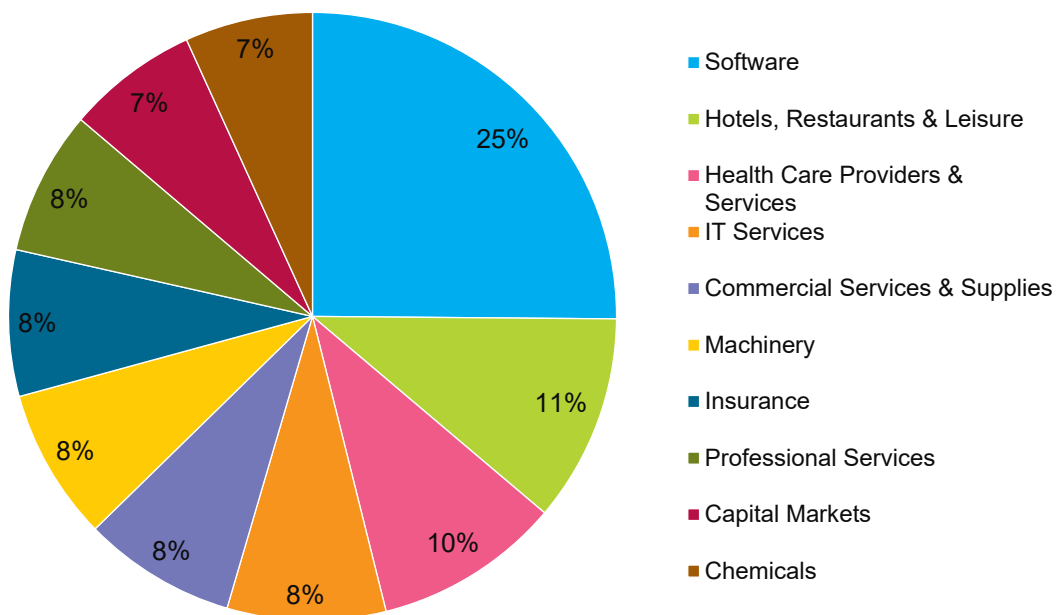
## Summary

Bank loans have emerged as a significant asset class within the broader credit market, offering unique advantages and challenges for investors. Their senior, secured, and floating-rate nature provides a level of protection and potential for higher recovery rates, making them an alternative to high yield bonds. However, the inherent risks, including credit/default risk, interest rate risk, and liquidity risk, should be carefully considered and managed. The floating rate structure of bank loans helps them to perform relatively well in rising interest rate environments, but their liquidity can rapidly decline during periods of market stress.

The historical performance of bank loans has shown that they can offer attractive returns with lower volatility compared to equities and high yield bonds, although they are riskier than investment grade bonds. The market has undergone significant structural changes post-GFC, with a rise in covenant-lite and lower-rated loans. The competition from private credit has further transformed the landscape, offering new opportunities and challenges for investors.

Ultimately, the inclusion of bank loans in an investment portfolio can often enhance diversification and yield, provided that investors are aware of the associated risks and have the necessary operational resources to manage them effectively. Active management remains a preferred approach due to the complexities and nuances of the bank loan market. As the market continues to evolve, investors must stay informed and adaptable to navigate the dynamic environment and capitalize on the potential benefits of bank loans.





**FIGURE 18**  
**Top 10 Sector Weights**  
**in the Leveraged Loan**  
**Market (%)**

Source: JP Morgan, as of June 30, 2025. Index: Morningstar LSTA Leveraged Loan Index. Uses GICS III at par for classification.

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